

The Virginia Board of Accountancy



Biennial Report Fiscal Years 2000-2002

**(Please Note: Some graphics removed from Biennial
Report for ease of computer access.)**

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BOARD OF ACCOUNTANCY LETTERHEAD/STATE SEAL

November 1, 2002

The Honorable Mark R. Warner
Governor, Commonwealth of Virginia
and
Members of the General Assembly

Dear Governor Warner and Members of the General Assembly:

The Virginia Board of Accountancy (Board) is pleased to submit its report for the period July 1, 2001 through June 30, 2002. The report provides a description of the Board's regulatory activities, important financial data, and an overview of enforcement actions.

The Board became a supervisory board and separate state agency effective July 1, 2001. During the previous year, the Board was administered under an umbrella operation of state government. The primary goals of the Board in seeking to become a separate state agency were to: i) provide more effective service to the public and the Board's regulants; and ii) operate more efficiently in order to minimize the cost of regulation for the board's regulants.

As a result of the outstanding work of a staff dedicated to the goals and responsibilities of one board, the Board didn't simply make progress towards these goals, but instead substantially exceeded its goals. This is clearly demonstrated by the information provided in the Executive Summary immediately following this letter. The Board has received numerous favorable comments from the public and regulants about the service that it provides.

During 2001, the accounting profession found itself under close public scrutiny amid allegations of serious standards of practice violations by some CPA firms outside the Commonwealth. Needless to say, the Board has been extremely concerned about these matters. This Board has the statutory authority to regulate the practice of accounting in Virginia and the past actions of this Board make it clear that it takes its responsibilities very seriously. If the Board's standards of conduct or standards of practice (e.g., generally accepted accounting principles and auditing standards) have been

The Honorable Mark R. Warner
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violated, the Board has taken in the past, and will take in the future, appropriate action against CPAs (in both public and private practice) and CPA firms, including suspension or revocation or the right to practice in Virginia. Though the Board receives very little publicity, the description of its enforcement procedures and resolution of enforcement issues elsewhere in this report make it clear that the Board is vigilant and effective in carrying out its enforcement responsibilities.

On behalf of the Board, we thank you for the opportunity to serve you and the citizens of the Commonwealth.

Sincerely,

Carol M. Hersch, CPA
Chairman

EXECUTIVE SUMMARY

Importance of the Board in Protecting the Public

The practice of public accountancy involves complex transactions and considerable judgment. That some CPAs have not measured up to the task is obvious from recent highly publicized cases. These cases also demonstrate the public's high performance expectations for CPAs, the critical role that CPAs play in the capital markets, the high level of competency required to appropriately apply the profession's standards of practice, and the disastrous effects of CPAs not following the profession's standards of practice or conduct. These facts also clearly demonstrate that the Board cannot fulfill its responsibilities unless the Board members are highly competent and experienced and the staff possesses the requisite level of knowledge and competency.

Rationale for Supervisory Board and Separate State Agency

The Board sought to become a supervisory board and separate state agency (as expressed very well by a former Secretary of Commerce and Trade) in order to be able to control its own destiny. Prior thereto, the Board had the responsibility but not the authority. As a result, the Board's activities were not carried out effectively or efficiently. The rationale for change was straightforward and simple:

- The goals and allegiance of the staff serving a separate agency would be aligned with the goals of the Board rather than being aligned with the goals of another agency.
- A staff dedicated to one board rather a staff serving various boards would become more knowledgeable about the Accountancy code provisions and related regulations and, thus, would provide more accurate and prompt responses to the public and the Board's regulants. This is particularly important in view of the complexity of the practice of public accountancy and the resulting Board regulations.
- The alignment of goals and staff "serving one master" would provide the staff a more meaningful and enjoyable work experience, which would be beneficial to the staff, the Board, the public and regulants.
- The Board would have the leverage to ensure the appropriate competency of the Executive Director and staff because the Board (i) employs the Executive Director who would serve at the pleasure of the Board; and (ii) the Board can counsel with the Executive Director with respect to the staff's skills and knowledge needed to carry out the Board's mission.
- The Board would design a computerized process designed to meet the Board's and its regulants' needs rather than having a process encumbered with design features not applicable to the Board.

The need for change and the wisdom of seeking that change is demonstrated by the following summary of the Board's numerous and substantial achievements in its very first year.

Summary of Certain Achievements During the First Year as Supervisory Board and Separate Agency

Providing Superior Service to and Communications with the Public and Regulants

- The Executive Director was employed on May 25, 2001, and on July 1, 2001 the Board had its own Website.
- The Board began communicating with regulants via email on October 1, 2001.
- The Board adopted a policy of responding to all questions by the end of the second business day for writing correspondence and the same day for telephone and email. Many regulants have expressed surprise and delight with the prompt and accurate responses they are getting to their questions.
- The Board's computerized, online process for renewals enables the regulant to immediately complete the renewal process by printing the license. This also avoids the cost of printing and mailing a license to the licensee.

Determining Competency to Enter the Profession

- There is no more important Board role than determining that a candidate has met the three Es (Education, Examination and Experience) set forth in the statutes. The Board is assisted in this endeavor by CPA Exam Services.
- Total CPA exam candidates during the biennium were: November 2000 – 2,058, May 2001 – 1,804, November 2001 – 2,231; and May 2002 – 1,953.
- The Board processed approximately 1,500 applications for CPA licenses and CPA firm registrations.

Determining Continued Qualifications for Licensure

- The Board has instituted various processes to help ensure the continued competency of CPAs and firms. These include affirmations obtained with renewal applications (e.g., a timely peer review has been conducted), audit of CPE compliance, etc.
- During fiscal 2002, the Board's processing of CPA license renewals, which is required annually, increased from about 15,000 to about 16,000. The comparable totals for CPA firms, which are renewed every two years, increased from about 550 to about 600 (one-half of the total firm registrants).

Adjudicating Enforcement Cases

- Fairly adjudicating enforcement cases is critically important to the regulant and the public.
- Investigations of complaints are initiated on the first day a complaint is received.
- Complaint cases are resolved in an average of six months.
- Staff can obtain, serve and execute any warrant, paper or process issued by any court or magistrate.
- An unfortunate statistic, the Board closed a total of 6 and 26 cases, respectively, during fiscal 2001 and fiscal 2002, including the suspension or revocation of 0 and 5 licenses, respectively, in fiscal 2001 and fiscal 2002.

Developing Computerized Processes Custom Designed for Board's Purposes

- By November 1, 2001, the Board had implemented computerized systems for all of its processes, which were tailored to the Board's specific needs.
- A key component of the new process provides online processing of renewals, including credit card payments. This not only enables the regulants to efficiently provide updated information and make the required affirmations to the Board, but it also substantially reduces the Board's time and cost for this activity.
- 93% of the Board's regulants used the online system to renew their licenses. This percentage far exceeded our expectations.

Achieving Cost Efficiencies

- Though carrying out its responsibilities in an exemplary manner and providing the best possible "customer" service is paramount, controlling the cost to the Board's regulants is also important. The Board receives no funds from the General Fund.
- The Board's operations cost its regulants \$487,531 for the fiscal year ended June 30, 2002, which is approximately \$82,000 less than the \$521,742 cost for the prior fiscal year – a dramatic difference.
- Excluding initial, non-recurring costs of \$120,000, the reduction in cost is approximately \$202,000.
- The \$24 fee for a CPA license and for a CPA firm registration are substantially lower than any other state.

Members of the Virginia Board of Accountancy

The Board consists of seven members, one public member who may be an accountant who does not hold a CPA certificate; one educator in the field of accounting; and five certified public accountants. The Governor appoints each member to a term of four years.

Board members are given a per diem for most Board business and reimbursed for certain expenses when performing official duties of the Board.



Carole Mulzer Hersch, CPA
Chairman

Second four year term ends June 30, 2003
(Licensed CPA)



Howard L. Rogers
Vice Chairman

Second four year term ends June 30, 2004
(Citizen Member)



Ellis M. Dunkum, CPA
Immediate Past Chairman

Second four year term ends June 30, 2004
(Licensed CPA)

Members of the Virginia Board of Accountancy



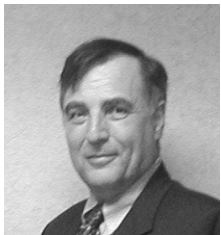
Barbara S. Pocalyko, CPA

First four year term ends June 30, 2004
(Licensed CPA)



Harry D. Dickinson, CPA

First four year term ends June 30, 2005
(Licensed CPA)



Professor Jon E. Bischel

First four year term ends June 30, 2003
(Educator Member)



Jane M. Little, CPA

First four year term ends June 30, 2006
(Licensed CPA)

THE VIRGINIA BOARD OF ACCOUNTANCY STAFF



(From left to right, Mary Charity, Nancy Taylor Feldman, Mark D'Amato and Jean Grant)

Board staff provides administrative services to ensure that the Board's mandate, to protect the citizens of the Commonwealth, is expeditiously and with determination accomplished. The staff talks with a variety of callers each day about the requirements to become licensed, the standards of practice for CPAs in Virginia and the Board's policies. Applications are reviewed and licenses issued, continuing professional education audits are performed and complaints are received and investigated. Board meetings are arranged and conducted throughout the year. The Board's official records i.e., applicant files, financial data, correspondence, investigative files and meeting minutes are maintained in accordance with legal requirements. Personnel, procurement and financial tracking are provided through a Memorandum of Understanding with the Department of Motor Vehicles.

MISSION STATEMENT

“The mission of the Virginia Board of Accountancy is to protect and serve the citizens of the Commonwealth by administering and implementing the laws and regulations for their health, safety, and welfare.”

VISION STATEMENT

The vision of the Virginia Board of Accountancy is to serve the citizens of the Commonwealth in a professional manner, in which the most equitable, efficient and economical means available are used to limit entry barriers to the workplace. To deny entry to individuals who are not qualified to practice public accounting and to discipline those who do not follow acceptable, ethical or professional standards.

CPA EXAM ADMINISTRATION

One of the most important Board responsibilities is administering the CPA exam. As can be seen from the ensuing tables, the Board, with the assistance of CPA Exam Services (a division of the National Association of State Boards of Accountancy), administers the CPA exam to roughly 2,000 candidates in May and November of each year.

CPA EXAM CANDIDATE PERFORMANCE

NOVEMBER 2000 CPA EXAM

CANDIDATES EXAMINED FOR	NUMBER SITTING FOR EXAM	NUMBER PASSING EXAM	PERCENT PASSING EXAM
AUDITING	1,742	476	27%
LPR	1,763	448	25%
FARE	1,864	489	26%
ARE	1,804	427	23%

*First Time Candidates – 914

*Re-Exam Candidates - 1,144

*Total Candidates taking Exam – 2,058

See Notes on Page 12

CPA EXAM CANDIDATE PERFORMANCE

MAY 2001 CPA EXAM

SECTIONS SCHEDULED FOR EXAM	NUMBER SITTING FOR EXAM	NUMBER PASSING EXAM	PERCENT PASSING EXAM
AUDITING	1,438	375	26%
LPR	1,479	431	29%
FARE	1,539	346	22%
ARE	1,545	397	25%

*First Time Candidates – 625

*Re-Exam Candidates - 1,179

*Total Candidates taking Exam – 1,804

CPA EXAM CANDIDATE PERFORMANCE

NOVEMBER 2001 CPA EXAM

SECTIONS SCHEDULED FOR EXAM	NUMBER SITTING FOR EXAM	NUMBER PASSING EXAM	PERCENT PASSING EXAM
AUDITING	1,871	502	26%
LPR	1,869	513	27%
FARE	2,000	481	24%
ARE	1,941	485	24%

*First Time Candidates – 924

*Re-Exam Candidates - 1,307

*Total Candidates taking Exam – 2,231

See Notes on Page 12

CPA EXAM CANDIDATE PERFORMANCE

MAY 2002 CPA EXAM

SECTIONS SCHEDULED FOR EXAM	NUMBER SITTING FOR EXAM	NUMBER PASSING EXAM	PERCENT PASSING EXAM
AUDITING	1,554	402	25%
LPR	1,546	422	27%
FARE	1,694	368	21%
ARE	1,657	380	22%

*First Time Candidates – 670

*Re-Exam Candidates - 1,283

*Total Candidates taking Exam – 1,953

Notes from previous pages

All CPA exams for May 2000-May 2002, were given at four locations around the state.

Richmond – Arthur Ashe Jr. Athletic Center, 3001 N. Blvd. Richmond, VA 23230

Norfolk - Norfolk Scope Plaza, Brambleton Avenue, Norfolk, VA 23501

Northern Virginia – Capital Expo Center / N Hall, 4368 Chantilly Shopping Center,
Chantilly, VA 22030

Roanoke - Roanoke Civic Center, 710 Williamson Road NE, Roanoke, VA 24016

LPR = Law and Professional Responsibilities

FARE = Financial Accounting and Reporting

ARE = Accounting and Reporting-Managerial, Taxation, and Not-for-Profit
and Governmental Accounting

PROCESSING APPLICATIONS FOR CPA CERTIFICATES AND FIRM REGISTRATIONS

A major activity of the Board is processing initial and renewal applications for a CPA certificate and firm registration. With respect to initial applications, accurately determining whether the applicant for a CPA Certificate meets the education, examination and experience requirements in strict accordance with the Code of Virginia and the Board's regulations is absolutely essential in order to protect the public. Likewise, accurately determining whether a CPA firm meets the peer review and other requirements for a firm license is also essential for the public's protection. The table below shows the initial applications processed during the year.

DATE	CPA CERTIFICATES	CPA ENDORSEMENT CERTIFICATES	FIRM	CPA REINSTATEMENT CERTIFICATES	TOTAL
JULY 2001	74	15	3	16	108
AUGUST 2001	96	17	5	20	138
SEPTEMBER 2001	52	19	5	16	92
OCTOBER 2001	103	12	6	23	144
NOVEMBER 2001	78	14	7	21	120
DECEMBER 2001	81	17	24	24	146
JANUARY 2002	51	10	11	39	111
FEBRUARY 2002	40	11	23	18	92
MARCH 2002	80	15	9	22	126
APRIL 2002	81	15	12	15	123
MAY 2002	97	15	12	27	151
JUNE 2002	58	14	19	19	110
TOTALS	891	174	136	260	1461

The Board of Accountancy experienced a substantial increase in the number of new licensees during the second year of the biennium. The Uniform CPA examination will be converted from a paper exam to a computer-based exam in early 2004. Some candidates for the exam may be completing the licensing requirements earlier in an effort to avoid the new exam format and that may explain the increase in the number of new licensees.

CPA LICENSE HOLDERS AND FIRM REGISTRATIONS MONTHLY TOTALS

A major activity of the Board is processing initial and renewal applications for a CPA certificate and firm registration. Determining whether CPA Certificate and Registration Certificate holders meet the requirements (e.g., Continuing Professional Education, Peer Review) for continued licensure is essential for the public's protection. The following table shows the total number of CPA Certificate and Firm Registration holders during the fiscal year ended June 30, 2002.

DATE	INDIVIDUALS	FIRMS
JULY 2001	15,059	1,111
AUGUST 2001	15,175	1,116
SEPTEMBER 2001	15,248	1,118
OCTOBER 2001	15,364	1,123
NOVEMBER 2001	15,460	1,130
DECEMBER 2001	15,556	1,155
JANUARY 2002	15,619	1,166
FEBRUARY 2002	15,679	1,188
MARCH 2002	15,773	1,197
APRIL 2002	15,869	1,209
MAY 2002	15,983	1,221
JUNE 2002	16,055	1,238

COMPLAINTS PROCESSED FOR JULY 2001- JUNE 2002

DATE	PENDING	NEW	CLOSED	TOTAL OPEN
JULY 2001	10	1	1	10
AUGUST 2001	10	2	0	12
SEPTEMBER 2001	12	2	0	14
OCTOBER 2001	14	1	5	10
NOVEMBER 2001	10	1	1	10
DECEMBER 2001	10	3	1	12
JANUARY 2002	12	1	0	13
FEBRUARY 2002	13	2	0	15
MARCH 2002	15	5	8	12
APRIL 2002	12	4	3	13
MAY 2002	13	3	1	15
JUNE 2002	15	2	6	11
TOTALS	N/A	27	26	11

The Board's two-member Enforcement Committee reviews information compiled by the investigative staff and determines whether violations of the statutes and regulations governing the practice by Certified Public Accountants (CPA) and CPA firms have or have not been committed. The Committee recommends appropriate action to the full Board for final disposition. The official complaint form with filing instructions is provided on the Board's website at www.boa.state.va.us to make it convenient for Virginia citizens. On July 1, 2001, the Virginia Board of Accountancy carried over ten complaint investigations from the previous umbrella agency. Since July 1, 2001, the Board received twenty-seven new complaints and the Committee closed twenty-six investigative matters and determined violations in fourteen of those cases. These actions included, four revocations, one suspension and nine with other terms and conditions. The Enforcement committee strived to enhance the efficiency and effectiveness of complaint resolution through the use of consent agreements, and by adopting mediation as a method of dispute resolution in certain cases.

ENFORCEMENT ACTIVITIES

No activity of the Board is more important than its enforcement activity. Due to the substantial consequences to both the regulant and the public, the Board and its staff spend considerable time on this activity. During the past biennial, the Board dealt with a large number of cases, some involving very complex issues.

NATURE OF COMPLAINT	TOTAL FOR BIENNIUM
Advertising	1
Embezzlement	1
Due Professional Care (Negligence)	5
Falsify Application	0
Fee Dispute	1
Licensing Eligibility	5
Unlicensed Practice	6
Tax Deficiency	6
Unprofessional Conduct	5
Violations of Standards of Practice	1
Conflict of Interest	1
Insider Trading	1
CPE Deficiency	14
Other	1

CONTINUING PROFESSIONAL EDUCATION AUDIT REPORT FOR JULY 2001- JUNE 2002

SELECTION MONTH	TOTAL SELECTED	NUMBER IN COMPLIANCE	NUMBER NOT IN COMPLIANCE	NUMBER SIGNED CONSENT ORDERS	NUMBER PENDING FINAL ACTION*
JANUARY 2002	34	32	0	0	2
FEBRUARY 2002	34	31	0	1	3
MARCH 2002	41	40	0	3	1
APRIL 2002	37	33	0	0	4
MAY 2002	40	36	0	2	4
JUNE 2002	30	29	0	0	1
TOTALS	216	201	0	6	15

Before July 1, 2001, when the Board of Accountancy became a supervisory board and separate state agency, regulant compliance with the continuing professional education (CPE) requirements of the Board was verified through an annual audit of approximately 5% of the total regulant population. After July 1, the Board, with its new IT system in place, started a new CPE audit procedure in January 2002. Each month a random audit is conducted from a sample of CPAs whose licenses expire 6 months hence. Further, the Board instituted new disciplinary procedures to address the issue of deficient licensees. The Board, in an effort to meet the changing needs of the regulants and to increase competence, broadened the types of continuing education credits that are acceptable. For example, CEU or CE, CLE, QAS, or Semester/Quarter Hour Credits are accepted as long as they maintain or increase the professional competence of the CPA. The new disciplinary procedures are to assure the regulants and the public of quick action if CPAs are non-compliant. Such initiatives meet the Governor's priorities, which include: (i) the enhancement of the performance of CPAs; (ii) the strengthening of the disciplinary process for CPAs who fail to comply with CPE requirements; and (iii) the maintenance of a highly competent and ethical accounting profession, which would raise public confidence in the profession.

BOARD OF ACCOUNTANCY FINANCIAL REPORT

Increasing its efficiency was a primary reason for the Board becoming a separate agency. An example of the Board's increased efficiency is demonstrated by a comparison of the revenue and expenditures for each of the two years ended June 30, 2002.

	Fiscal 2001	Fiscal 2002	Change
Revenue	\$521,742	\$480,214	\$ (41,528)
Expenditures	\$569,173	\$487, 531	\$ (81,642)
Excess (deficiency)	\$ (47,431)	\$ (7,317)	\$ (40,114)

These operating results are even more impressive when one considers that, not only were the total expenditures for fiscal 2002 \$81,642 less than fiscal 2001, but fiscal 2002 includes approximately \$120,000 of first-year expenditures for computerized systems and processed, computer hardware, and office furniture and equipment.

Background On Board of Accountancy As Supervisory Board and Separate Agency

The Virginia Board of Accountancy (Board) was created in 1910 and the 2001 General Assembly enacted law to establish the Board as a supervisory board and separate agency of state government to become effective July 1, 2001.

A considerable amount of effort by the seven Board members and staff was expended on the many tasks of transitioning the Board during the months prior to July 1, 2001. The Board met on May 25, 2001, and appointed the Board's new Executive Director, Nancy Taylor Feldman. The daily operations of the Board were transferred to Ms. Feldman immediately, and on July 1, 2001, the Board opened the doors to its new website: www.boa.state.va.us. On July 15, 2001, the Board staff moved into its new offices in Suite 696 at 3600 West Broad Street in Richmond.

Under the leadership of Chairman, Ellis M. Dunkum, CPA, the new Accountancy team began an aggressive effort to create its IT system to include an internal and external database, online credit card renewal process, email directory for communication with the Board's regulants, online regulant verification for the public and printable forms and newsletter. On November 1, 2001, the new system with all of its bells and whistles went live. 93% of Virginia's Certified Public Accountants (CPA) and CPA firms have chosen to renew online which allowed the Board a significant savings in processing costs during FY02. The process for interactive application forms with online credit card payments is planned for next year.

The Board staff, Mary Charity, Mark D'Amato and Jean Grant were instrumental in the success of highly efficient daily operations. A new licensing process was implemented and mailing of license cards was discontinued. The Board took a new approach to both Continuing Professional Education (CPE) compliance and investigation and adjudication of complaints. The Board adopted a policy requiring strict compliance with the requirements for CPE. The members agreed that failure to complete the required CPE by the prescribed deadlines would result in tough penalties for licensees. "Investigations of complaints," the members said, "will include detailed written responses from the licensees specifically addressing all allegations." Two Board members, Harry D. Dickinson, CPA and Barbara S. Pocalyko, CPA were appointed to serve on the Board's Enforcement Committee. They are responsible for review of complaint investigations and for recommending appropriate disciplinary action to the Board.

During 2001, Ellis M. Dunkum, CPA served as Chairman of the Board and the Board supported his election as Regional Director for the National Association of State Boards of Accountancy (NASBA). Joan D. Clarke, CPA completed a four-year term on the Board and Harry D. Dickinson, CPA was appointed to the Board. In 2002, Carole Mulzer Hersch, CPA was elected Board Chairman and Howard L. Rogers, citizen member was elected Vice Chairman. Jon E. Bischel served as the Board's educator member. John B. Purcell, Jr., Assistant Attorney General, and Richard B. Zorn, Senior Assistant Attorney General, provided legal counsel to the Board.

While the Board has devoted much of its time to the organization of the new agency, several important matters at the national level have demanded the Board's attention. Board members and staff participated in the development of the computerization of the Uniform CPA examination. Final plans are underway and it is anticipated that the new computerized exam will be administered in every state in early 2004. During this biennium, the accounting profession found itself under close public scrutiny amid allegations of serious standards of practice violations by some CPA firms outside the Commonwealth. The Board has been, and continues to be, extremely concerned about the recent erosion of the public's confidence in the profession. In 2002, the Board began the process of regulatory review to ensure that its standards are at the highest level necessary to adequately protect Virginia's citizens.